

Part III: EMS Funding and the 2002 Financial Plan

Introduction: This section of the EMS 2002 Annual Report focuses on EMS revenues and expenditures for 2002. Some historical information is incorporated for context, including information on the current EMS funding mechanism and the projected status of the EMS Financial Plan through the current levy period. Components include the following categories:

- EMS Revenues
- EMS Expenditures
- EMS Expenditure and Revenue Trends
- The 2002 Financial Plan
- Recommendations for the remaining Fund Balance

Please note that under terms of an inter-local agreement between King County and the City of Seattle, EMS levy funds collected within Seattle go directly to the City. The following discussion of EMS revenues and expenditures is limited to King County, excluding the City of Seattle. Limited City of Seattle information is included in this section.

A. EMS Revenues

Background: The regional EMS system is supported by a complex combination of regional EMS dedicated property tax levy funds, local city and county current expense allocations, and fire district funds. Failure of the EMS levy, intended to finance the 1998-2003 period, resulted in no levy assessment in 1998. As a result, the King County Council authorized a framework for short-term borrowing using general obligation tax anticipation notes and interfund borrowing to fund the shortfall. In addition, fire departments and districts were required to find financial support for the first half of 1998. A voter-approved, three-year levy was subsequently authorized in February 1998 to support EMS activities during the 1999-2001 period. Repayment of the tax anticipation notes was completed in 2001.

Current Status: The EMS levy is a regular property tax levy and is therefore subject to the limitations contained in Chapter 84.55.010 RCW as amended by Referendum 47. Under Referendum 47, property tax growth is limited by the Implicit Price Deflator (IPD), a national inflation economic indicator, or an amount up to 6% by a finding of “substantial need” by a supermajority vote of the King County Council. EMS levy funds are restricted by RCW, and can only be spent for EMS-related activities. Initiative 747, passed in November 2001, limits total levy funds to a 1% increase for existing properties.

In November 2001, King County voters approved an EMS levy to provide funding for the 2002-2007 period. The EMS levy rate for 2002 is \$0.25 per \$1,000 of assessed property value. The EMS 2002-2007 Financial Plan assumes modest growth in property values, continued low inflation, a one percent limit on fund growth from existing properties, growth in expenditures

related to anticipated regional demand for Advanced Life Support Services (ALS), and stable growth in other services at the level the local consumer price index (CPI-U).

AMOUNT ASSESSED FOR CURRENT LEVY

ACTUAL 2001, 2002, 2003

(All numbers in thousands -- 000 omitted)



In addition to real and personal property taxes, other revenues received include current expense funds, timber harvest taxes, interest earnings, other miscellaneous taxes, and fees for reimbursable services. In 2002, it is projected that the regional levy will generate 98% of the total revenues, with current expense and other income combined to generate the remaining 2%.

King County contributes \$375,000 annually in Current Expense Fund monies to make up the difference between levy funding and actual costs for King County Medic One (based on a standard ALS allocation provided to all ALS providers). In 2002, there was a one-time additional contribution of \$456,057 in current expense funds to cover additional costs associated with the new paramedic contract.

Total estimated revenues for 2002 are \$35,454,748. The 2002 beginning fund balance was \$3,668,830. The projected year-end fund balance is \$5,960,178 (balance of King County only). More information on projected revenues through the end of the current levy is included in Section C – Trends.

2002 Estimated EMS Revenue (balance of King County)

	Revenue	% of Total
Taxes	34,238,557	97.4%
Reimbursable & Other Income	70,124	0.2%
Current Expense (CX)	831,067	2.4%
	<u>35,139,748</u>	

B. EMS Expenditures

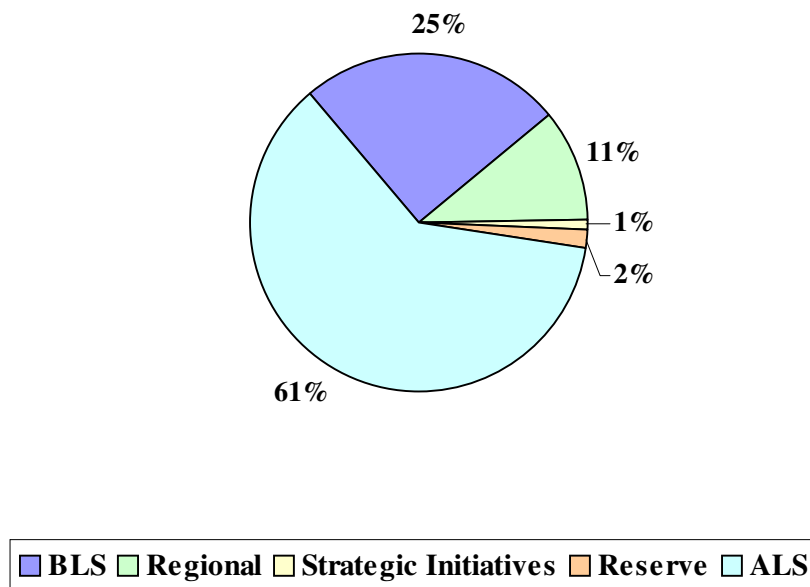
EMS revenues support three major EMS activities related to direct service delivery or support programs.

- Advanced Life Support (ALS) Service
- Basic Life Support (BLS) Service
- Regional Support Programs (including Strategic Initiatives)

The 2002 *Strategic Plan Update of the 1998-2003 Emergency Medical Services Strategic Plan (EMS Strategic Plan)* limits increases for all three areas to the local area Consumer Price Index (CPI). Increases for ALS services can be increased above CPI if there is “sufficient funding available to alleviate any dramatic increase in provider contribution” (*EMS Strategic Plan* - page 49).

Advanced Life Support Services funding is based on a standard per unit allocation, BLS services are funded based on a complicated allocation formula, and Regional Support Programs are based on cost of services and cash flow for Strategic Initiatives. Yearly reserves to provide for unanticipated expenses are also budgeted. In 2002, this reserve is being used to cover new unanticipated expenses and carryover items identified by providers after the accounting cut off date. The primary use of the contingency fund in 2002 is by ALS providers.

2002 Budget Allocation



Advanced Life Support (ALS) Services: Since the first EMS levy in 1979, regional paramedic services have been largely supported by the EMS levy. The EMS Division provides funds directly to five paramedic provider agencies in King County: Shoreline Fire Department (Shoreline Medic One), Public Hospital District #2 (Evergreen Medic One), Bellevue Fire Department (Bellevue Medic One), Public Health - Seattle & King County (King County Medic One), and Vashon Island Fire & Rescue.

Levy funds for ALS services are allocated using a standard unit cost methodology based on the full costs of operating one paramedic unit, 24 hours a day, 365 days a year, and staffed with two Harborview-trained paramedics. In 2002, the standard unit cost allocation was \$1,207,354 per paramedic unit. The 2002 allocation is a 12% increase over the 2001 allocation of \$1,080,314. These costs included personnel, medical equipment and supplies, support costs for dispatch, supervision, medical direction, continuing medical education, and other EMS related expenses.

Two types of paramedic units qualify for half of the standard unit cost funding. Emergency medical technician/paramedic (EMT/P) units are staffed 24 hours per day with one EMT trained in defibrillation and one paramedic. Part-time (or 12-hour) paramedic units are staffed with two paramedics for twelve hours during a peak workload period. Each EMT/P or 12-hour unit received \$603,677 per unit in 2002. Funding for Vashon Island Fire & Rescue was increased from \$119,900 in 2001 to the half-unit funding level of \$603,677 in 2002.

Paramedic vehicle replacement is funded separately from the standard unit cost allocation and follows a paramedic vehicle replacement plan. First-line paramedic vehicles are currently replaced every three years, and then placed in a backup vehicle status for three additional years. The allocation for vehicle replacement costs in 2002 was \$117,484 per vehicle. Seven vehicles were funded in 2002. Additional funds are also provided for start-up costs related to new and expanded units.

The annual EMS levy allocation for each paramedic provider is determined by the number of units staffed with two paramedics, the number of EMT/P units, the number of 12-hour 2-paramedic units, and the number of vehicles due for replacement that year. Start-up costs for any new paramedic units (including personnel, medical equipment and supplies, vehicles, radios, and other items) are added separately.

In 2001, it was estimated that individual service providers paid for approximately 13% of the costs of paramedic services. The 2002 ALS allocation was developed to reimburse the full costs of operating a paramedic unit. At an estimated cost of \$1,207,354 per unit, the 2002 allocation is a 12% increase over the 2001 level of \$1,080,314. However, due to cost areas where ALS costs typically increase higher than CPI, it is estimated that there was a small amount of cost shifting to local providers in 2002. For example, King County will be contributing approximately \$831,000 (current expense funds) or 2.5% of King County Medic One's budget.

In 2002 two .5 units were added to the system. Evergreen Medic 47 in Bothell was changed from a 12-hour half time unit to a full 24-hour unit. A 12-hour unit was added in Shoreline. The total number of ALS units in 2002 is shown on the following chart:

	Full Units (2 paramedic / 24 hour) ⁽¹⁾	Half Units (EMT-P or 12 hour) ⁽²⁾	Total Funding Units
Evergreen	3	1	3.5
King Co.	6	1	6.5
Bellevue	2	2	3.0
Shoreline	1	1	1.5
Vashon ⁽³⁾		1	
Total	12	6	15.0

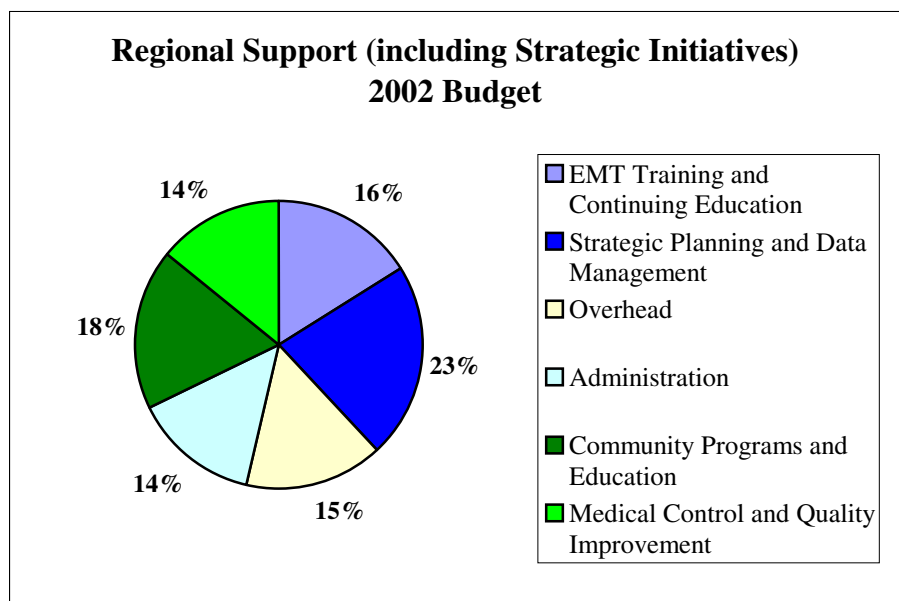
⁽¹⁾ Full Units are funded at 100% of the Standard Unit Cost of \$1,207,354.

⁽²⁾ Half Units are funded at 50% of the Standard Unit Cost of \$603,677.

⁽³⁾ Vashon funding is currently set at .5 of 24-hour unit.

Basic Life Support (BLS) Services: The levy provides partial funding to BLS providers to help assure uniform and standardized BLS care, and enhance BLS services. Basic Life Support services are provided by thirty-three local fire departments and fire districts. Beginning in 2002 the total amount of BLS funding will be increased by the local area CPI (CPI-U) each year as noted in the *2002 Strategic Plan Update of the 1998-2003 EMS Strategic Plan*. The annual BLS dollar amount for 2002 is approximately \$8.5 million. This is a 2.86% increase from the 2001 funding level of approximately \$8.29 million.

Regional Services and Strategic Initiatives: The primary purpose of regional EMS programs and services is to support core programs essential to providing the highest quality out-of-hospital emergency care available. Programs are provided by the EMS Division and are funded by EMS levy funds. For purposes of this discussion, state and federal grants are not presented here. Major funded areas included in Regional Services include: EMT Training and Continuing Education, Data Collection and Reporting, Community Programs and Education, Medical Control and Quality Improvement, Administration, Overhead costs, and contingency reserve.

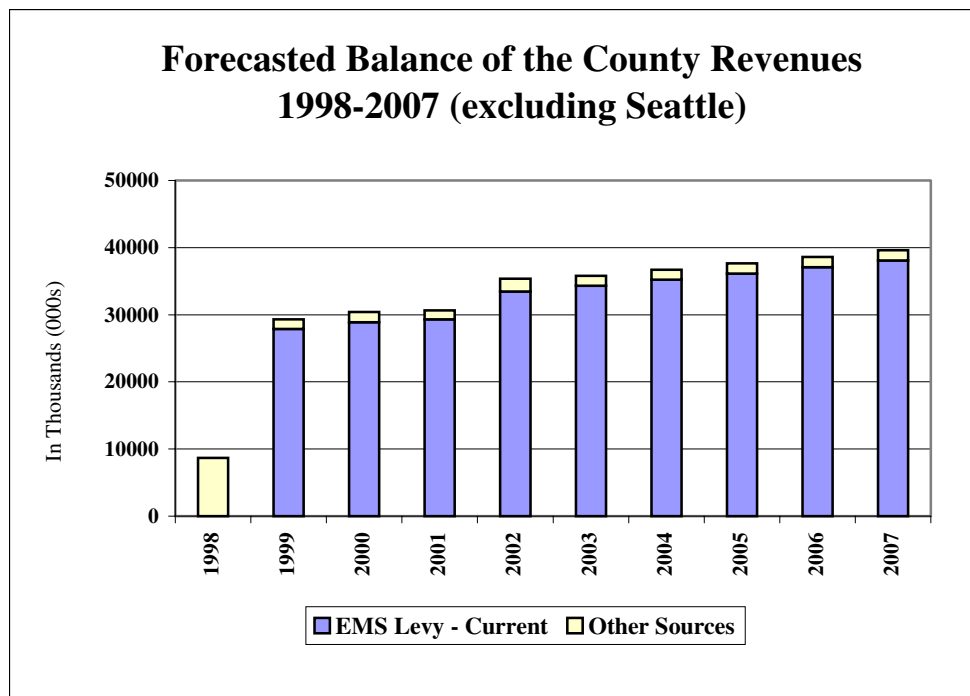


The *EMS Strategic Plan* limits increases in funding for Regional Services at local CPI (CPI-U). Expenditures, particularly labor expenditures related to resolution of labor agreements have increased higher than the CPI-U. Fortunately, several of the Strategic Initiatives have also resulted in decreased operational costs. The 2002 budget for Regional Support is \$3,575,477; the 2002 budget for Strategic Initiatives is \$439,000.

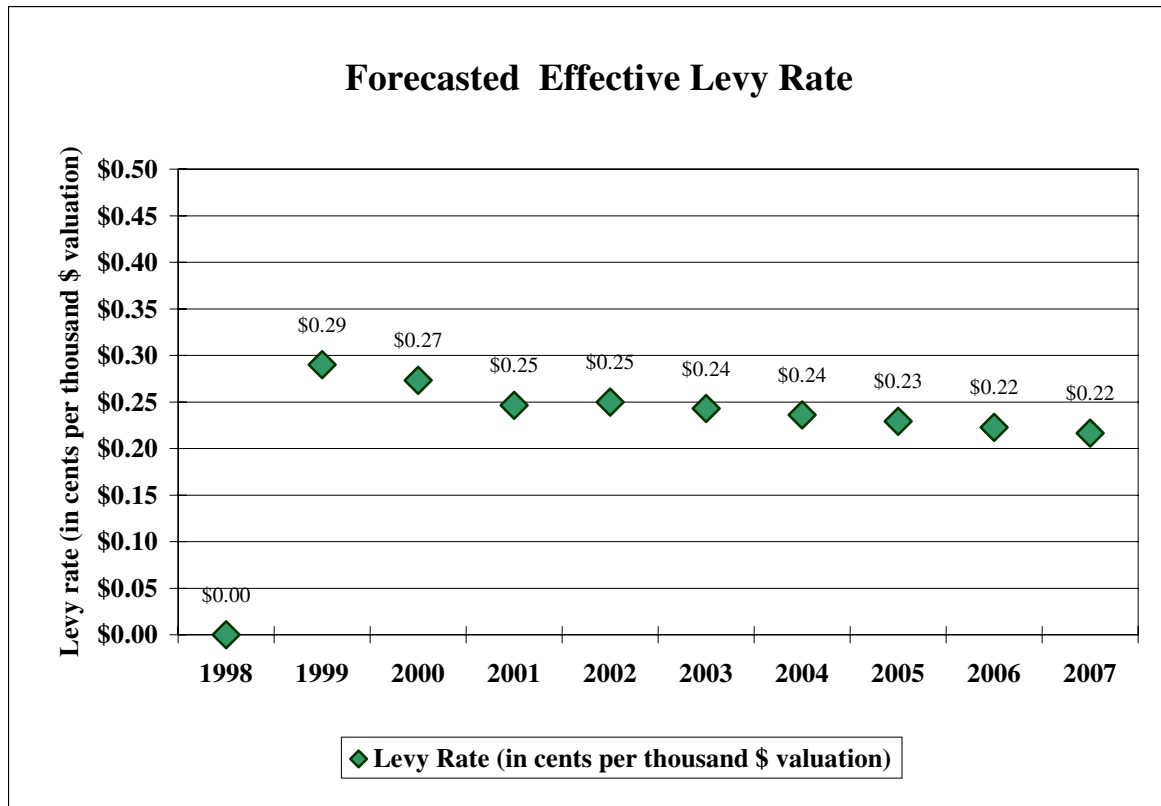
The contingency reserve for 2002 is \$575,716. Approximately \$401,000 of the reserve is targeted for use in 2002 (as of August 5, 2002). This includes approximately \$381,000 for ALS costs and \$20,000 for BLS costs. Approximately 61% of ALS costs are for “carryover” items requests by providers after King County’s carryover window was closed. Other items include transitional costs for units moving from Evergreen Medic One to other providers and corrections to BLS allocations.

C. EMS Revenue and Expenditure Trends

Revenues Trends: The primary revenue source for EMS is the 2002-2007 EMS property tax levy. Levy revenue growth is limited by the terms of Initiative 747 which limits revenue growth from existing properties to 1%. Total tax revenues, including real estate and personal taxes, leasehold taxes and timber taxes are projected to increase 14% from 2002 to 2007 (or an average of 2.7% per year). Growth over the 1% limit based on existing properties is primarily due to projected new construction. Other revenues, primarily interest and reimbursable income, are projected to remain stable, including current expense contributions of \$375,000 per year. Total revenues are projected to increase 12% from 2002 to 2007, an average of 2.3% per year. The following chart shows actual and projected revenues through 2007:



While revenues are projected to increase, the effective levy rate is projected to decrease. To stay in compliance with Initiative 747, the effective levy rate is projected to decrease from \$0.25 per thousand dollars of valuation in 2002 to \$0.21646 in 2007.



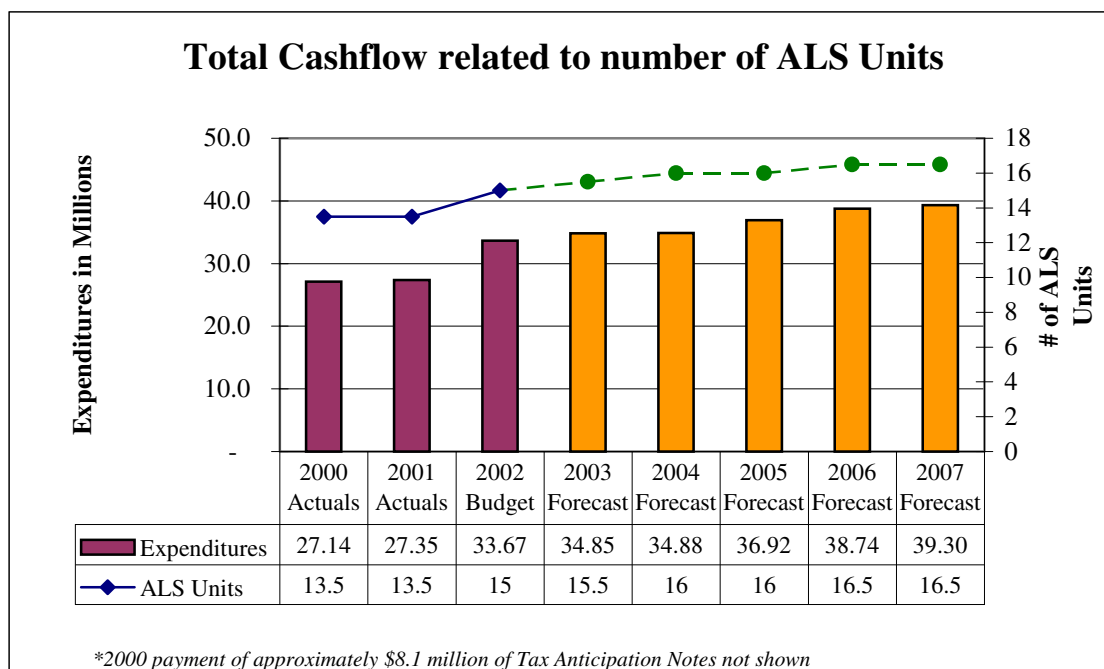
Forecast revenues are sufficient to cover forecast expenditures through the end of the levy period. It currently appears that there is sufficient fund balance to accommodate a future (beyond 2003) one-time increase in ALS allocation if it is needed to minimize cost shifting to ALS providers.

Expenditure Trends: EMS expenditure increases primarily correspond to adding new ALS service. From 1995 to 1997, expenditures increased 10.4% per year reflecting increases of one funded unit per year. King County Medic 7 was added as a full time unit in 1996, and two half-time units, Bellevue Medic 4 in Issaquah and Evergreen Medic 47 in Bothell were added in 1997. From 1997 to 2001, the period covering the 1997 levy failure and the three-year 1998-2001 levy, there were total expenditure increases of 9.3% or 2.3% annually. This reflected a freeze in BLS funding levels, effectively shifting normal cost increases to local providers, and little growth in ALS service (addition of KC Medic 12, a half-time unit; and Vashon Island at .2).

Between 2001 and 2002, expenditures increased 23% from \$27.3 million in 2001 to an estimated \$33.7 million in 2002. A significant portion of the increase was a 12% increase in the ALS allocation. The intention was to cover 100% of the actual costs and correct for the cost shifting to local agencies that had occurred during the levy failure and interim levy. An additional 1.3 ALS units were added (Evergreen Medic 47 in Bothell from half-time to full-time; Shoreline

Medic 65, a new half-time unit; and the Vashon Island unit was increased to half-time funding). There were modest increases in BLS and Regional Support funding.

Between 2002 and 2007 expenditures increases will be primarily driven by the addition of new ALS units and increases in ALS allocation. The total ALS budget is projected to increase 23% between 2002 and 2007 or an average of 4.6% a year.

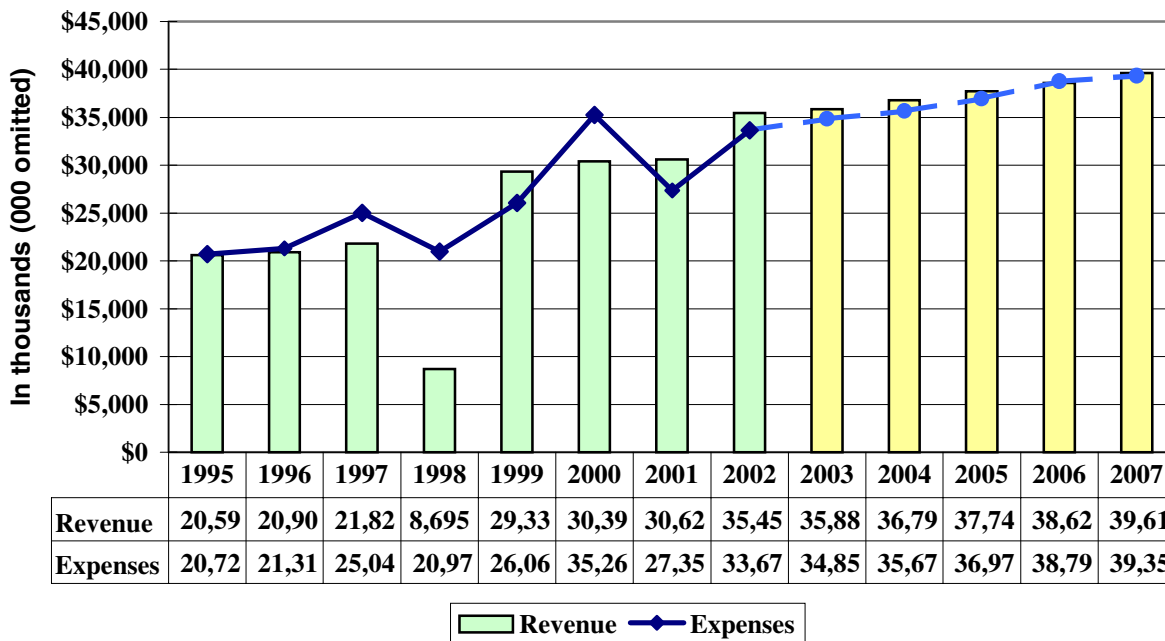


Historically, costs incurred by EMS providers have increased at a rate higher than CPI due to increases in labor agreements and the rising cost of medical supplies and equipment. To minimize this cost shifting to agencies, a one-time eight percent increase is proposed for 2003. It is projected that there will be sufficient reserves in the fund for an additional one-time increase higher than CPI-U prior to 2007 (if needed to minimize cost shifting to agencies). One and a half (1.5) new units are projected to be added between 2003 and 2007. In 2003, Bellevue Medic 4 in Issaquah is scheduled to increase to 24-hour service.

BLS and Regional Support funding is projected to remain steady and not exceed CPI. BLS funding is projected to increase from \$8.53 million in 2002 to \$9.68 million in 2007. Regional Support funding is projected to increase from \$3.55 in 2002 to \$3.96 in 2007. It is anticipated that there will be continued use of the contingency reserve each year.

The following chart shows actual and projected revenues and expenses from 1995 to 2007. Revenues are projected to exceed expenditures during 2002 through 2005. In 2006 revenues exceed expenditures, while revenues approximately match expenditures in 2007. It is currently projected that revenues exceeding expenditures in 2002 through 2005 will be needed to fund future ALS increases and costs.

EMS Projected Expenditures & Revenues



**2000 payment of approximately \$8.1 million of Tax Anticipation Notes shown*

D. 2002 EMS Financial Plan

The 2002-2003 EMS Financial Plan summarizes actual and projected revenues, and expenditures for core EMS Division programs and services, major strategic initiative directions and other additions. The EMS Financial Plan shows the current status of the undesignated fund balance in relationship to a target fund balance. The target fund balance is the equivalent of one month's operating costs for EMS activities.

E. Recommendations for Fund Balance

The EMS Financial Plan currently projects a fund balance in 2007 that exceeds the EMS Fund required end fund balance (EFB). When evaluating potential ALS allocations for 2003, it was decided that reserve over the fund balance be preserved to allow for a future one-time ALS increase above the CPI. To leave sufficient projected reserves for a future increase, the 2003 proposed increase was proposed at \$1.304 million per unit, rather than the projected average rate of \$1.342 million.

Due to the ALS challenges mentioned in the EMS System Review section, ALS costs that are projected to exceed CPI, and a desire to minimize cost shifting to ALS providers, it is

recommended that the EMS levy rate be set at the maximum allowable rate of the levy. In addition, EMS is in the first year of a six year levy. It is prudent to set rates to maximize revenues to provide needed ALS/paramedic services. If the levy rate is reduced, there is the possibility that EMS will not be able to provide the service that has been committed to in the levy.